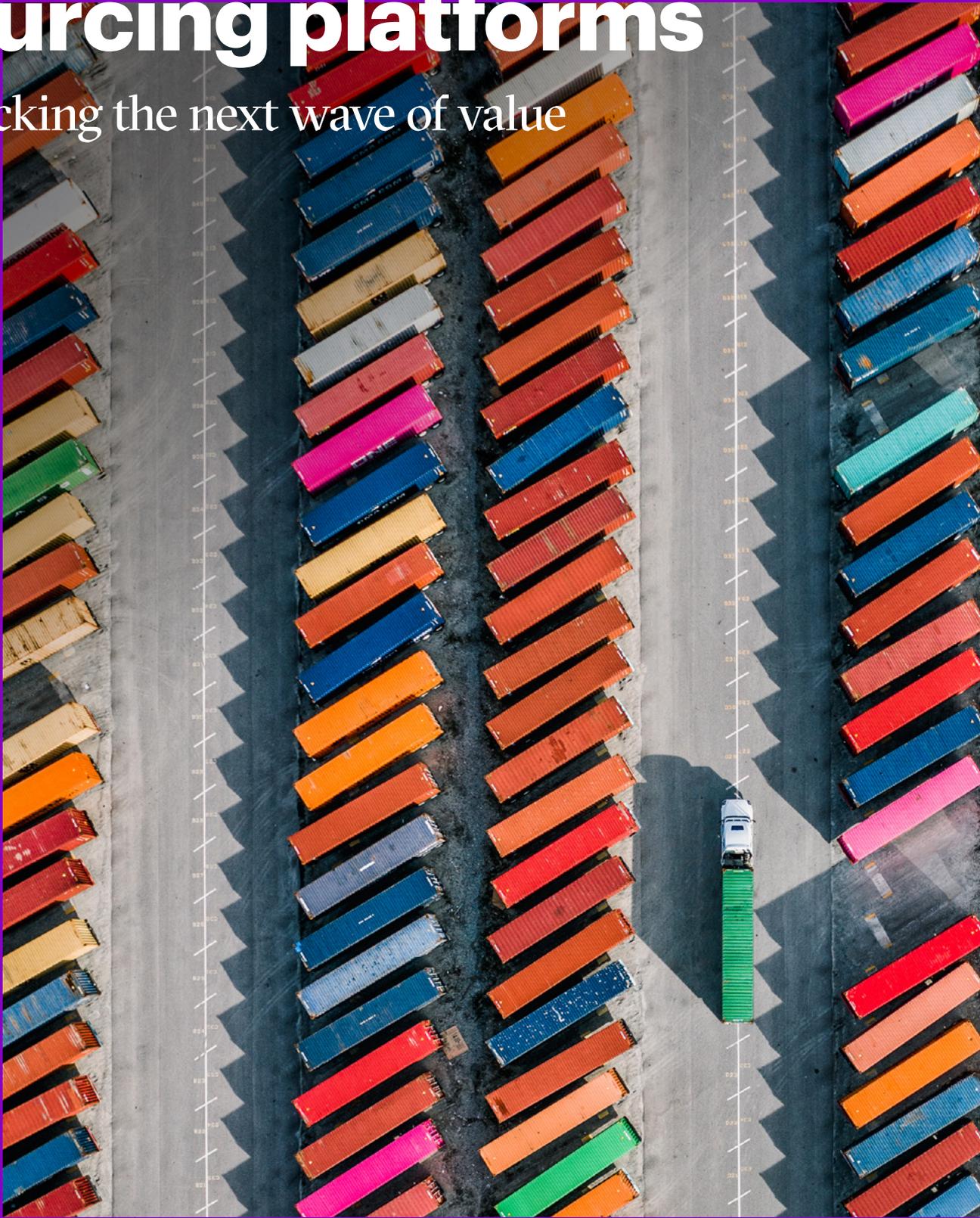


Advanced sourcing platforms

Unlocking the next wave of value



For years, leading procurement organizations have been on a steady march toward optimizing their most complex and mature categories. According to Accenture research, Procurement Masters (including the top 5 percent of procurement organizations) excel at value creation, generating 15 percent more savings than industry peers.

But past high performance doesn't mean procurement isn't expected to continue adding incremental value, bolstering profitability and fueling growth.

The emergence of advanced sourcing platforms has made this achievable for many organizations by providing capabilities that otherwise would have required significant investment.

For example, procurement technology innovators such as Coupa and Jaggaer provide leading offerings that focus on advanced analytics, scenario optimization, improved decision making, and efficiency—far exceeding standard sourcing platforms' capabilities.

Coupa's Sourcing Optimization (CSO) product, an extension of the company's cloud platform, leverages mathematical optimization algorithms to drive better sourcing decisions in complex, large-scale projects. Similarly, Jaggaer's Advanced Sourcing Optimizer (ASO) extends complex scenario building and analysis to the entire spend portfolio. Both companies' offerings also feature digital negotiations capabilities. Other players such as Zycus have recently introduced their own advanced analytics-enabled platform and are quickly gaining traction with early adopters.

These platforms are delivering significant value for organizations that have embraced new, digital ways of working. For instance, a large consumer goods manufacturer recently used the Jaggaer ASO platform, saving an additional 5 percent in the facilities and MRO categories that they thought had already been optimized. Similarly, an auto maker, leveraging \$2.3 billion in spend, saved an average of 10 percent across its first 12 sourcing events with Coupa CSO—including \$18 million in a single event through optimization and expressive bidding techniques.

In our experience, these results are typical, not outliers, and we expect more as Procurement Masters continue to leverage these capabilities. Infusing these capabilities with market intelligence and relevant, responsive category strategies has launched a renaissance in indirect cost reduction.

So how are procurement organizations responding?

In response to these challenges, platforms have invested significantly in advanced optimization and analytics capabilities, enabling procurement organizations to get the intelligence they need from a unified, scalable tool—without the time or cost of building a custom solution. While each is unique, advanced sourcing platforms share three common advantages:

1. Automate analytics to drive incremental sourcing results

The powerful analytics tools embedded in these platforms give organizations the capacity to do something they've never been able to do before: quickly evaluate, without manual intervention, an unlimited number of bids, bidders, and line-level items against varying sets of constraints, conditions, and business objectives to optimize award decisions. This enables sourcing professionals to:

- **Unlock additional savings (both hard and soft) that traditional, manual analysis would never be able to find** — In our experience, companies can realize typical additional savings of as much as 12 percent.¹
- **Save procurement professionals significant time by minimizing manual analysis** — Companies have seen, on average, a six-week reduction in sourcing professionals' analysis time, managing more data, analyzing more scenarios and with greater accuracy, and freeing them up for higher-value pursuits.²
- **Shift their focus from traditional price or total cost of ownership (TCO) analysis to an approach that utilizes enriched data to assess value across other dimensions** — For example, instead of looking primarily at a good's price, freight, and storage costs, companies can understand how certain sourcing decisions align with their strategy, supplier diversity and category goals, and risk profile.

2. Support digital supplier negotiations with real-time feedback

These platforms allow suppliers to customize their bids based on a set of pre-determined constraints and business goals. Results can be provided in real time and feedback can flow freely between the company and its bidders. For instance, a “red/yellow/green” rating for bid prices against should-cost estimates can automatically be given to suppliers, which can then determine whether or how they should adjust their bid. Vendors also have the flexibility to add value to their bids in different ways and by using various scenarios.

One major consumer goods manufacturer used expressive bidding and scenario visualizations to provide non-price feedback to bidders to help improve their bids—for example, suggesting a 5 percent improvement in on-time commitment could result in a 20 percent increase in share of the award. A second company, an American food producer, used its advanced sourcing platform to provide bid price versus baseline feedback and inform bidders where they stood in the overall bid tier (top five, 10, and 15) to encourage bidders to largely hold prices and eliminate increases in a rising market.

Importantly, vendors can also compare their price points and bids to the other competitors vying for the company’s business. This injects a “virtual game-theory” dimension into the process that encourages competitors to improve their bids against each other—thus unlocking additional savings that can’t be attained through a traditional stage-gated RFX event.

3. Streamline RFX development putting the focus on strategy, not setup

Advanced sourcing solutions make it easy for companies to build scenarios and add constraints via templates that are easily customized by category, stakeholder, and other dimensions. These templates expedite the event creation process, allowing sourcing professionals to focus on sourcing strategy and stakeholder engagement.

These tools also foster consistency across sourcing leads by incorporating certain parameters—a diversity goal for example, that the organization wants to be factored into all bids—and by ensuring that data collected across various events is uniform. This improvement in upstream data collection consistency supports downstream analytics and generates insights, creating a value-added cycle. As these tools continue to mature, we expect to see AI-enabled functionality that will include pre-built should-cost models and analysis scenarios based on a category or event profile.

Platforms in action

Because of the significant incremental value they generate, advanced sourcing platforms are gaining momentum in the marketplace across industries. Here are two examples of companies that have embraced them and the results they're experiencing.



A large US retailer needed to conduct a facilities services event for more than 800 locations supported by a highly fragmented supply base. Using the Jaggaer ASO platform, the company was able to identify service requirements for each location, while allowing suppliers to bid on select locations or create location bundles for discounted pricing. Automated analysis of bid scenarios, enhanced with business constraints, labor market insights, and should-cost estimates, enabled the team to focus on accelerated evaluation and negotiations, delivering \$20 million in savings while reducing the sourcing timeline by more than three weeks compared with past efforts.



Another company, **a global industrial OEM**, had an aggressive cost takeout target for the upcoming fiscal year. Using Coupa's CSO sourcing tool to optimize its sourcing capabilities, the company identified significant opportunities within the transportation and MRO categories, executing 12 events over a four-month period. By taking advantage of the tool's digital negotiations capabilities the company generated more than 30 percent cost savings in two events alone.

Not all platforms are the same

It's clear that advanced sourcing platforms can have a major impact on a company's business, and that the leading solutions all share several common characteristics. They:

- **Go beyond workflow management, bid consolidation, and basic analysis**
- **Apply automated complex analytics to an unlimited number of scenarios**
- **Optimize awards based on user-defined hard and soft constraints**
- **Enable digital negotiations, expressive bidding, and real-time bidder feedback**

But this doesn't mean all platforms are the same. Each of the leading solutions has its own strengths and weaknesses, depending on how a sourcing organization will use it and their specific needs. For instance, some are stronger in spend analytics, while others can provide integrated components for related processes within procurement.

From a category standpoint, advanced sourcing platforms will support events across the spend portfolio. While optimization tools have historically focused on freight/transport, MRO, and packaging, some tools are now being applied to areas such as marketing, fleet management, subscriber services, legal, and facilities management to drive improved results. In general, these platforms do not work well for:

- **Sole-source or non-competitive sourcing events**
- **Categories such as complex direct materials**
- **Technical services (e.g. engineering)**
- **Components and services that are part of highly complex solutions**

Furthermore, platforms are available in various "flavors." For example, they can be offered as a standalone solution or as part of an integrated sourcing suite (with the potential to incorporate supplier risk assessments and contract authoring). They can be licensed for individual use (as a complement to mature sourcing organizations' capabilities) or provided as a service (working in concert with a firm such as Accenture to run advanced sourcing events on behalf of a client); in fact, such solutions are becoming the de facto sourcing platforms for many companies providing outsourcing services for sourcing.

Where do you go from here?

As they mature, advanced sourcing platforms are revolutionizing how leading companies manage complex sourcing. When coupled with market intelligence and relevant, responsive category strategies, they're uncovering significant additional value from areas where no more value was thought to hide.

Some companies are working with partners to employ these powerful solutions, leveraging market insights and execution strategies from third parties like Accenture. Others are choosing to invest in the platforms themselves as part of a broader transformation toward an intelligence-led procurement organization.

In either case, when moving forward, companies should keep in mind six key steps for operationalizing this new approach to sourcing:

- 1 Identify the target categories and quantify the potential return**
- 2 Establish both short-term and long-term goals in alignment with stakeholders**
- 3 Assess the procurement team's readiness and capabilities**
- 4 Gauge the business' readiness to think differently and act differently**
- 5 Validate the platforms, costs, and integrations to existing systems**
- 6 Engage the platform or partners**

There's no doubt procurement organizations have made huge progress in the past few decades to improve their performance and boost their contributions to the business. Now it's time to take it another step further: capitalize on the latest and greatest sourcing tools and unlock the next wave of value.

About the Authors

Jesse Hanger

jesse.hanger@accenture.com
USA

Jonathan Levy

Jonathan.m.levy@accenture.com
USA

Brian Pease

brian.j.pease@accenture.com
USA

Other Contributors

Rob Fuhrmann

robert.p.fuhrmann@accenture.com
USA

Lee Geller

lee.m.geller@accenture.com
USA

References

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